P

G. R. S. IX-5]

Previous references.

File No. 159-16

Serial Nos. ~~1~~ + 15

1916.-17

(C. J)

Later references.

C. J 159-16 (Ser. 11, 12, 13 & 14)
C. J 18-17 (1)
" —do— 271, 15-20, 23 Dec^r 1919
" 55-19-18, 33-40, 42-47.

GENERAL AND REVENUE SECRETARIAT.

P. 18 (11)

Serial Nos. ~~1~~ + 15

Part B for July 1917.

SUBJECT.

My Watts's Second note on Redemption of the Mysore Railway Loan

---

Ser: 15 H 293 —5 Dj: 14.7.17

Approving the above Suggestion

W D 88—GPB—50,000—24-7-16

KRB

GENERAL AND REVENUE SECRETARIAT.

(C J)

NOTES.

File No. 159-14

FILE HEADING.

Mr Watts's Second note on Redemption of the Mysore Railway loan

From Mr. J. L. Watts. M.A.

No. Dated 7.6.17. Received

Diary No.	Enclos.	Spare Copies.	Serial No. M+15

BRIEF ABSTRACT OF LETTER.

NOTES AND ORDERS.

P.T.O

of M. 1246 of 1916

G.R.S. 13]

Routine Notes.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

Second Note on Redemption of the Mysore Railway Loan.

CONFIDENTIAL AND URGENT.

A copy of Mr. Datta's note on the marginally noted subject is forwarded to Assistant Secretary, Branch II, for working up the case in accordance with the instructions laid down in Official Memorandum dated the 30th April 1917.

Draft
16/6

May the H Secy be requested to give his opinion

1st member.
2nd member. } 18
11.6.1917.

I agree with all the suggestions of Mr Datta -

MG
16/6

Next is an unimportant question & I think the H. Secy must be seen in person to get his opinion.

Draft
13/6

18 14/6

I agree
H Secy

18
15/6

[The Comptr should submit a monthly account of transactions with a brief report to enable the Govt to watch & if necessary to stop at any stage

211
14.6.17

MG
16/6]

Put up a draft order at once reading Memorials &c. with correspondence ending with letter inviting the comptr letter enclosing the purchase made & Mr Datta's

N.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

GPB—50,000—29-6-14

3)

2/VI/17

Note & study the proposals as in the summary.

Instructions should be issued as in Fleetwood's note.

18
18/6/17

ASR

Note
97 [illegible]
the subject [illegible]
return to [illegible]
separately
DMc 18/6/17

Draft C.O. subd
DMc
18/6

Fly Draft subd to
Fisher with a draft order to facilitate
disposal. The draft order maybe
sanctioned by Mr. Datta.

18
18/6/17

For favour of remarks if any,

Dave
19/6

N
19/6

Datta
21

I think a monthly report will be too belated intimation to Govt of such an important matter as this. The Comptroller should be required to report every transaction as soon as he gets intimation of it from the Bankers and should keep the Govt informed of the progress in the purchases made. He should also report to Govt all sales of securities as soon as they are effected. He should also obtain from managing [illegible] half yearly on 30th June & 31st December [illegible] of the amount of stock held by them on behalf of the State whether free from mortgage or under mortgage. He should also obtain from the Bankers a monthly account of the loans taken from them & the interest charged on them.

K. L. Datta
19. 6. 17.

7.11.1916

G.R.S. III—3]

Routine Notes.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

Fui Secy)

Secy
20/6

Mr. Datta's suggestions in his note of 30.6.17 may be accepted.

22/6/17

Revised draft submitted, which may be approved.

Secy)
21.6.17.

* For being placed before Council (vide para 2 of Flag A).

18
22/6.

3600
22.6.

Fuel & Canal Branches)

Secy
20/6
18
22/6

Steps offered - matter should be placed before Council

22/6

18 22/6

244
23-6-17

Effected
23.6

Secy) 18
22/6

After perusal by Secy, this may be circulated to the Executive Members of the Council.

Secy
23/6
18
23/6

N.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

Secy)

W.D. 84—GPB—60,000—20-7-16

7338
26.6.17

Read at 5.20 P.M. 26.6.17.

26.6.17

CS Secy 26/6

(For Disposal at a Meeting)

No. C. 462-17

28/6/1917

GENERAL AND REVENUE SECRETARIAT.

COUNCIL MATTER.

SUBJECT.

(Clause viii of the Schedule)

Mr. Datta's second note on Redemption of the Mysore Railway Loan.

CIRCULATED TO THE MEMBERS OF COUNCIL.

By Order,

Secretary to Government.

27th June 1917.

Extraordinary Member of Council. 2.7.17.

First Member of Council. Approved.

Second Member of Council. Approved.

WD 2670—GPB—1,000—11-5-17

Extract from the Proceedings of the ....422nd.... Meeting of the Council of His Highness the Maharaja, held at ....Bangalore.... on the ....5th.... July .... 1917 .

9. Subject. - (Clause viii of the schedule.)

Mr. Datta's second Note on Redemption of the Mysore Railway Loan.

OPINION OF THE COUNCIL.

The annexed draft order may be approved.

(Sd) M.Visvesvaraya,
Dewan of Mysore.

"EXTRACT"

Secretary to Government,
General Department.

WD—156—GPB—1,000—19-7-16.

(9)

G.R.S. III—3]

Routine Notes.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

The draft order appears to be in simple.
16
5/7

Obtained and put up.
5/7/17

D.F.N. sent.
6/7/17

To the Assistant secretary, Branch II, for kindly submitting the file to the First Member of Council with a D.F.N.

Draft
5/7
16
5/7

D.F.N. submitted to 1st member
16
6/7/17

Approved
7/7

Fair final note signed by the 1st member is put up.
7/7/17

Drawn. with D.F.N.
thereof duly.
16
7.7.17

86
7/7

196
10.7.17

Order
9/7
16/7

N.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

W.D. 84—GPB—60,000—20-7-16

Final Note by the First Member of Council.

Subject:—

Purchase of the Mysore State Railway Debenture Stock.

On the suggestion of Mr.K.L.Datta, Special Officer, sanction was accorded with His Highness' approval to the purchase of as much of the Railway Debenture stock as could be had at a price not higher than 77 per cent through Messrs.Coutts & Co., London.

2. Accordingly papers of the face value of £135,380 at a cost of £ 101,698-9-0 were purchased, the average purchase price being 75⅛ per cent. As funds with the State Bankers at London were exhausted, further purchases have been stopped.

3. In his 2nd note of the 7th June 1917, Mr.Datta again recommends the purchase of as much ~~as~~ of the stock as may be available at about 75 per cent and suggests that a temporary loan of £ 80,000 may be taken from Messrs.---- Coutts & Co at ½ per cent above the Bank rate on the security of the stock already purchased and that further loans to the extent required may be raised in England on the same terms.

4. The matter was considered in Council. The proposals of Mr.Datta which have been agreed to by the Financial Secretary and the Members of Council as embodied in the draft order may be graciously approved.

7th July 1917

Submitted to His Highness.

I submit herewith a Final Note by the First *Member of Council on the subject of* Mr. Datta's second note regarding the continuance of the purchase of the Railway Debenture Stock, *for His Highness' gracious approval.*

M. Visvesvaraya

Dewan.

11th July 1917.

Record of Cases submitted for the Orders of His Highness the Maharaja

Subject.

Mr. Datta's second note regarding the continuance of the purchase of the Railway Debenture Stock.

Order.

~~KRW~~
13/7/17

Fin (Sanlats
14.7.17

Secretary
18
14.7.17

ND 1233—GPB—60,000—1-12-16—S.

G. R. S. III-2]

General and Revenue Secretariat.

G 7 File No. 159 of 1916

Serial No.	
15	To The Hl Secy " Comptroller " Mr K-L. Datta Hl 293-5 14.7.17 Approving the above suggestion —

NOTE—Contn. sheet.

URGENT AND CONFIDENTIAL.

SECOND NOTE ON REDEMPTION OF THE MYSORE RAILWAY LOAN.

In my first note on "Redemption of the Mysore Railway Loan" I suggested that the State should purchase as much of the debenture loan as could be had at a price not higher than 77 per cent. This suggestion was approved by Government in their No. Fl. 4687-8—G. F. 73-16-2, dated 23rd February 1917. According to this order, the Comptroller has now bought through Messrs. Coutts & Co., debenture stock of the face value of £135,380 at a cost of £101,698-9-0. The cash balance of the State available with the Bankers having been exhausted, further purchases have been stopped for the present.

2. At the time I wrote my note I thought that any large amounts of this loan might not be available on the market. When the Comptroller placed the order for purchase with the Bankers, they reported that this stock was not on the market and that there was no likelihood of its being procurable. They were, however, asked to try. The enquiry made by the brokers of Messrs. Coutts & Co. has however brought this stock to the market and now that its holders know that there is a demand for it, fairly large quantities are being offered for sale and it now seems to be possible to purchase still larger quantities. I consider that it is desirable to continue to buy the stock to the extent to which funds can be found to meet the cost.

3. The average price at which the stock has been bought is $75\frac{1}{8}$ per cent including accrued interest, brokerage, etc. Excluding interest, the cost may be taken at $74\frac{1}{2}$ per cent and as it is redeemable at par in 1936 the gain on the purchase so far made is $\frac{£135,380}{100} \times 25\frac{1}{2} = £34,522 = \text{Rs. } 5,17,830$. The rate of exchange ruling for some time past has been about 1*s.* $4\frac{1}{4}$*d.* At this rate the remittance of the amount which the State had with Messrs. Coutts & Co., would have entailed a heavy loss even if the amount could be remitted to India at all and this loss has also been saved. I think it will be possible to buy a large quantity of the stock at about 75 per cent and this means that one-fourth of the debt will be wiped out, while the State will be earning $5\frac{1}{3}$ per cent on the amounts spent on the purchase of the stock as explained below.

4. Apart from the very substantial gain to the State on the redemption value of the stock, the purchase of the stock is itself a profitable investment. The debenture stock bears interest at 4 per cent and if bought at 75 per cent, the yield will be $5\frac{1}{3}$ per cent which is better than the return of $5\frac{1}{4}$ per cent on the 5 per cent War Loan in which the State has recently invested $33\frac{1}{3}$ lakhs.

5. As long as the War continues, it may be impossible, as it has been for many months past, to get the surplus balance with Messrs. Coutts & Co., remitted to India and such balance will have to be invested in England at least temporarily and there cannot be a better investment for the State than in their own debentures at their present low market price.

6. This debenture stock was issued with the sanction of the Secretary of State and interest on it is guaranteed by him. Its repayment has also been provided for by the formation of a sinking fund under the orders of the Secretary of State. It is therefore a security of the same kind as the pro-notes of the terminable loans of the Government of India and any Bank will be prepared to lend money on it.

7. The purchase of as much of this stock as may be available, being in every respect advisable, the question for consideration is how should funds for the purchase be found. In my note on "Redemption of the Mysore Railway Loan," I have recommended the sale of $3\frac{1}{2}$ per cent securities in instalments and this recommendation has been accepted by Government. Notes of the face value of 13 lakhs have already been sold, but further sales have not been made as the prices offered are not quite acceptable and as long as the New War Loans are open, there will be no demand for the $3\frac{1}{2}$ per cents. I think however that there will be a demand for these securities some time hence, after the New War Loan is closed. As opportunities for sale offer themselves the $3\frac{1}{2}$ per cent paper should be sold and the proceeds used for buying the Railway debenture stock. The State holds 6 lakhs in 4 per cent conversion notes

and has subscribed for 35 lakhs in the New War Loan 1929-47. All these notes may be sold for investment of the proceeds in the Railway stock. I think the other investments held by the State, as given on the margin, should also be disposed of if acceptable prices can be obtained for them and the proceeds used for the same purpose. These are, however, methods on which we cannot count for an immediate supply of funds necessary for resuming purchase of the Railway debenture stock at once, which in my opinion is very necessary. It would be a great mistake for the State to lose the present opportunity of buying the debentures at their present low price. I think the best means of finding funds for continuing the purchase of the stock is to borrow in London on the security of the stock already purchased. The Comptroller has, at my instance, made enquiries of Messrs. Coutts & Co., regarding the prospects of raising money by pledging the stock already bought and the Bankers have informed him that they themselves are prepared to lend £80,000 on the stock now in their possession at one-half per cent above Bank rate. The amount which Messrs. Coutts & Co. have offered to advance is 80 per cent of the value of the stock. The Bank of England rate is now 5 per cent and it is not likely to rise within the next 6 or 7 months, during which period alone we may require the accommodation under consideration. We may therefore take it that the rate of interest we shall have to pay on the amount borrowed by us will be $5\frac{1}{2}$. As stated in para 4 above, the investment in this stock yields a return of $5\frac{1}{3}$ per cent. The gain by exchange will also be equivalent to about $\frac{1}{12}$ per cent. Borrowing at $5\frac{1}{2}$ per cent will therefore involve a loss of $\frac{1}{12}$th per cent which is insignificant compared with the advantages to the State of buying as much as possible of its own debt at its present low market price and practically redeeming it at 75 per cent of its nominal value.

	Rs.
Municipal Debentures	18,00,000
Karachi Port Trust Debentures	4,50,000
Government of India Sterling paper	21,82,500

8. If the offer of Messrs. Coutts & Co. is accepted, a sum of £80,000 will become immediately available and stock of the face value of about £106,600 can be bought for it. This sum of £80,000 can be repaid in the next 6 or 7 months as the surplus balance of the State in England during the period will be about £100,000. It is uncertain when it will become possible to get the funds remitted from England to India and the proposal to borrow temporarily from Messrs. Coutts & Co., will not only enable us to continue to buy the stock but also solve the difficulty of remittance of funds to India. The additional stock thus bought will also become available for further borrowing for further purchases. The situation will of course have to be considered from time to time in the light of the quantities of stock which may be available in the market for purchase, the amounts that can be found from the surplus balances with Messrs. Coutts & Co., the funds that can be raised by borrowing on the security of additional stock bought and the amount that it may be possible to find by selling the $3\frac{1}{2}$ per cent and other securities now held by Government.

9. As explained above we can raise on the security of the stock purchased by us 80 per cent of its present market value. That is, we have to find in cash only 20 per cent of the cost. The cost of the whole £1,200,000 of the stock at the present rates is only £900,000 and to purchase them we have to find in cash only £180,000. We have already found in cash £100,000 and during the next 5 or 6 months we shall be able easily to find the balance of £80,000. So that we have the means of purchasing the whole stock if it becomes available for purchase. If we are able to do so, we shall make a gain of $\frac{1}{4}$ of £1,200,000 or £300,000 or forty-five lakhs of rupees and we may have to pay $\frac{1}{6}$ per cent additional interest on the amount which we shall have to borrow which will be only £720,000 in all even if we cannot discharge any portion of it soon by the sale of the other kinds of securities now held by us. $\frac{1}{6}$ per cent on this will mean an annual loss of only £1,200 or Rs. 18,000, an insignificant sum considering that we gain £300,000 or Rs. 45 lakhs on the purchase. I do not think we shall have to bear even this small loss for any length of time, for I am sure that, as soon as the war comes to an end, the Bank rate of interest in England will go down to $4\frac{1}{2}$ per cent or even 4 per cent and when it does go down we shall be able to make a substantial profit from the interest which we shall get on the debentures after deducting the interest which we shall have to pay on the amount borrowed for their purchase. I would therefore go on purchasing the stock by raising funds on the security of the very stock purchased, until we have succeeded in buying the whole of the stock.

10. If we utilise £180,000 of our resources in England in purchasing the stock, we may have to borrow a corresponding sum in India to meet our ordinary requirements if we are not able to sell any of our securities here. This is a very remote contingency, for I am sure we shall be able to realise £180,000 by the sale of our securities soon after the new War Loans are closed about the middle of this month. Even if it takes some time it will not matter as we shall be able to manage without borrowing during the next 3 or 4 months and thereafter we shall be able to borrow from the Presidency Banks on the security of our investments. Further, I do not think it will be necessary for us to strengthen our cash balances in India to the extent of the full amount utilised in England for the purchase of the debentures. If the Government of India accepts our proposal to postpone the date of payment of the 1st instalment of the subsidy from January to March, it will improve our position to the extent of 17½ lakhs and we may safely expect an improvement in other directions of 9½ lakhs in the next 12 months. The total improvement may therefore quite possibly amount to 27 lakhs and it may not be necessary to borrow anything at all for our ordinary requirements in India.

11. To sum up my proposals are as follows :—

(1) A temporary loan of £80,000 may be taken at ½ per cent above Bank rate from Messrs. Coutts & Co., for about 7 months on the security of the stock already bought and the amount may be used for buying further stock.

As purchases are made, Messrs. Coutts & Co. may debit the cost in their accounts with the State and charge interest at the stipulated rate on the overdraft from day to day with an addition of £1,000 which the State has undertaken to keep with them as a minimum balance.

(2) The Comptroller may be authorised to continue the purchase of the Railway debentures by raising further loans in England on the same terms. The 3½ per cent paper and the other investments may be disposed of, as opportunities for sale offer themselves, with a view to make available funds sufficient for purchase, if possible, of even the whole issue of £1,200,000.

(3) The Railway debenture stock purchased may be held against the balance of Famine Insurance Fund, the Sinking Fund for the 4 per cent Loan of 1906, and the moiety of Savings Bank Deposits which should be held in the form of liquid investments.

(4) When a sufficiently large quantity of the Railway debentures has been purchased, it may be exchanged for an equivalent value of the 3½ per cent Government of India securities now held by the Controller of Currency on account of the sinking fund. These 3½ per cent securities can then be held by the State as its permanent investment on account of Famine Insurance, Savings Bank Deposits and other liabilities.

(5) If we are able to purchase only half the amount of the debentures, say of the nominal value of £600,000 at a cost of about £450,000, we shall be able to get in exchange from the Controller of Currency the whole of the 3½ per cent securities now held by him. We can hold them as a permanent investment and the whole of our other securities with the exception of about 30 or 40 lakhs worth can be disposed of gradually to pay for the purchase of the debentures and for utilisation on capital expenditure. If we can buy more of the Railway debentures, the position will be still better.

K. L. DATTA,
7-6-1917.

G.R.S. 28]

Diary No. of letter replied to X nil / 1246-16

GENERAL AND REVENUE SECRETARIAT.
(G.7)

, the 191

Date of issue 14-7-17

Signed by W Sreenivasa Iyengar

Finance G.7

File No. 159/16

Serial No. 15

Proceedings of the Government of His Highness the Maharaja of Mysore

READ—

G.O. no. 7E4687-8 dy 23.2.17
G.7 ~~73~~-162 / 159

appraising Govt Dalta's suggestion that the State shall purchase as much of the Railway Debenture Stock as possible as can be had at a price not higher than 77 per cent.

2. Correspondence ending with letter no. 10053/Bonds-983 dy 25.5.17 from the Comptroller to Govt

over

~~ORDER THEREON.—No.~~

SUBJECT.

reporting that debenture stock of the face value of £ 1,35,380 has been purchased through Messrs. Coutts & Co, London, as per particulars noted in the margin, and that as the balance with the bankers has been exhausted further purchases have been stopped for the present.

£		
10,000	@	75
53,380	"	74
40,000	"	74 3/8
20,000	"	74 5/8
12,000	"	74 7/8
1,35,380		

3. Note dt 7.6.17 by Mr. K. L. Dalta, Special Officer, recommending the Continuance of the purchase of the Railway debentures to the extent available in the market and Suggesting the following proposals in the matter.

(1) A temporary loan of £ 80,000 may be taken at ½ per cent above Bank rate from Messrs Coutts & Co., for about 7 months on the security of the Stock already bought and the amount may be used for buying further Stock.

As purchases are made, Messrs Coutts & Co, may debit the cost in their accounts with the State and charge

G.R.S. 27]

GENERAL AND REVENUE SECRETARIAT.

(Continuation sheet draft form.)

interest at the stipulated rate on the overdraft from day to day with an addition of £1,000 which the State has undertaken to keep with them as a minimum balance.

(2.) The Comptroller may be authorised to continue the purchase of the Ry. debentures by raising further loans in England on the same terms. The 3½ per cent paper and the other investments may be disposed of, as opportunities for sale offer themselves, with a view to make available, funds sufficient for the purchase, if possible, of even the whole issue of £1,200,000.

(3) The Ry. debenture stock purchased may be held against the balance of Famine Insurance Fund, the Sinking Fund for the 4 per cent Loan of 1906, and the moiety of Savings Bank Deposits which should be held in the form of liquid investments.

(4.) When a sufficiently large

Quantity of the Rly debentures has been purchased it may be exchanged for an equivalent value of the 3½ per cent Govt of India Securities now held by the Controller of Currency on account of the Sinking Fund These 3½ per cent Securities can then be held by the State as its permanent investment on account of Famine Insurance Savings Bank Deposits and other liabilities.

Order thereon No. F. 293-5 of 14 July 17

The proposals of Mr Datta contained in his second note dt. 7-6-17 read above are approved.

2. The Comptroller is requested to take the needful action accordingly.

3. He shall send a report to Govt of every transaction relating to the purchase of these debentures as soon as he gets intimation thereof from the Bankers, with

GPB—20,000—16-2-14

G.R.S. 27]

GENERAL AND REVENUE SECRETARIAT.

(Continuation sheet draft form.)

information regarding the progressive total of the purchases made and of sales of Securities effected. He SLO also obtain from Messrs Cutts and Co. and send up to Govt,

(i) a monthly account of the loans taken from time to time and the interest charged thereon, and

(ii) a half-yearly certificate showing on 30th June & 31st Dec^r the amount of stock held by them on behalf of the State, whether free from mortgage or under mortgage.

Secretary to Govt
General Deptt

To The Financial Secretary
" Comptroller to Govt
" K. L. Datta, Special Officer.